

Message Text

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ACTION AF-08

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C O N F I D E N T I A L SECTION 1 OF 2 LUSAKA 0407

E.O. 11652: GDS

TAGS: EAID, ECIN, ECON, ZA

SUBJ: GRZ ATTITUDES TOWARD GLOBAL ECONOMIC ISSUES

REF: STATE 26242

SUMMARY: THE CENTRAL ROLE OF COPPER IN THE ZAMBIAN ECONOMY (28 PERCENT OF GDP, 23 PERCENT OF GOVERNMENT REVENUE, AND OVER 90 PERCENT OF EXPORT EARNINGS OVER THE 1972-76 PERIOD) GIVES A DISTINCTIVE PERSPECTIVE TO THE ZAMBIAN VIEW OF NEEDED CHANGES IN THE FUNCTIONING OF THE WORLD ECONOMY. IT HAS A DIRECT BEARING ON THE ZAMBIAN APPROACH TO EACH OF THE FOLLOWING MAJOR ISSUES BEING ADDRESSED IN CIEC, UNCTAD, CIPEC AND THE GENEVA MTN:
END SUMMARY

1. TERMS OF TRADE BETWEEN INDUSTRIAL GOODS AND COMMODITIES:
ZAMBIAN RECEIPTS FROM COPPER EXPORTS DECREASED BY 45 PERCENT BETWEEN 1974 AND 1975 WHILE PRICES OF IMPORTS ON WHICH THE ECONOMY IS HEAVILY DEPENDENT CONTINUED TO RISE STEEPLY. THE OVERALL DETERIORATION IN ZAMBIAN TERMS OF TRADE HAS BEEN ESTIMATED AT 74 PERCENT FROM APRIL 1974 THROUGH DECEMBER 1975. FOR THE ECONOMY AS A WHOLE, IMPORTED MATERIALS AND SPARE PARTS PROVIDE ESSENTIAL INDUSTRIAL INPUTS SO THAT IMPORT RESTRICTIONS ON A SCALE LARGE ENOUGH TO AFFECT THE BALANCE OF PAYMENTS IMBALANCE
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HAVE PRODUCED STRONG REPERCUSSIONS IN MUCH OF INDUSTRY. IN THE CASE OF THE COPPER INDUSTRY, SUCH A HIGH PROPORTION OF INPUTS ARE IMPORTED THAT THE NET CONTRIBUTION OF THE INDUSTRY TO THE BALANCE OF PAYMENTS IS ONLY 20 PERCENT OF COPPER RECEIPTS. FOR COPPER THIS IS MORE THAN A SHORT-TERM PHENOMENON; BETWEEN 1972 AND 1975 THE UNIT COST OF SALES INCREASED BY 45 PERCENT WHILE COPPER PRICE (IN KWACHA TERMS) INCREASED BY 4 PERCENT.

2. RECOVERY OF WORLD ECONOMIC ACTIVITY: THE VOLUME OF COPPER SALES IS DIRECTLY RELATED TO THE LEVEL OF ACTIVITY IN THE INDUSTRIAL COUNTRIES. MOVEMENT TOWARD RECOVERY IN EARLY 1976 WAS IMMEDIATELY REFLECTED IN COPPER PRICES; THE SUBSEQUENT SLUMP RETURNED COPPER PRICES TO THE DOLDRUMS. AT PRESENT WORLD COPPER STOCKS ARE ESTIMATED AT ABOUT 1 1/2 MILLION TONS, ABOUT ONE QUARTER OF ANNUAL NON-COMMUNIST WORLD CONSUMPTION. IN ZAMBIA, WHERE GOVERNMENT REVENUE FROM COPPER COMPANIES PLUMMETED FROM K339 MILLION IN 1974 TO K15 MILLION IN 1976--THE WORLD RECESSION IS VIEWED AS CAUSING THE DISRUPTION OF AN ORDERLY DEVELOPMENT PROGRAM.

3. A BUFFER STOCK FOR COPPER: THE WORLD COPPER INDUSTRY HAS A LONG HISTORY OF GYRATIONS IN PRICE WHICH HAVE DESTABILIZED THE INDUSTRY AND HURT CONSUMERS THROUGH DISTORTION OF INVSTMENT UNDERTAKINGS AND CONSEQUENT SHORTAGES. UNSUCCESSFUL ATTEMPTS BY ZAMBIAN PRODUCERS TO SMOOTH OUT PRICES DATE BACK TO 1955. WHILE ZAMBIA SEES A NEED FOR BUFFER STOCKS AND HWS EXPRESSED SUPPORT FOR THE UNCTAD INTEGRATED PROGRAM, IT DOES NOT WANT THE ISSUE TREATED AS A FOOTBALL OF INTERNATIONAL POLITICS. THE COUNTRY IS AMENABLE TO PROCEEDING THROUGH A PRODUCER/CONSUMER FORUM TO ARRIVE AT AN AGREED APPROACH. AT PRESENT ZAMBIA IS PREOCCUPIED WITH THE DISEQUILIBRATING AFFECT OF THE LME (LONDON METAL EXCHANGE) MECHANISM ON PRICE AND WANTS A NEW REFERENCE BASE FOR COPPER PRICES TO BE WORKED OUT INDEPENDENT OF LME.

4. OIL PRICE INCREASES: AS A NON-OIL-PRODUCING DEVELOPING COUNTRY, ZAMBIA NEEDS OIL BUT IS NOT AS HEAVILY DEPENDENT AS SOME ON

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IMPORTED ENERGY BECAUSE OF PLENTIFUL AND COMPARATIVELY INEXPENSIVE HYDRO-ELECTRICITY. NONETHELESS, PETROLEUM IMPORTS INCREASED FROM 806,000 TONS IN 1975 TO 842,000 TONS IN 1976. PRESIDENT KAUNDA IN HIS RECENT OPENING-OF-PARLIAMENT SPEECH EXPRESSED INDIGNATION AT THE POSITION IN WHICH NON-OIL LDCS HAVE BEEN PLWCED BY THE OPEC ACTION AND PLEDGED A PROTEST AT THE AFRO-ARAB SUMMIT MEETING. BESPITE OUTSPOKEN CRITICISM, HOWEVER, THE OPEC COUNTRIES STILL SEEM TO BE VIEWED AS COMRADES-IN-ARMS.

5. ROLE OF THE WORLD BANK: AS EXPRESSED IN THE 1977 BUDGET SPEECH, ZAMBIA IS CONCERNED THAT THE IBRD IS "BEING TRANSFORMED FROM A DEVELOPMENT TO A COMMERCIAL INSTITUTION". ZAMBIA IS CLASSIFIED NEITHER AS AN MSA NOR AN LLBC BECAUSE OF THE LEVEL OF ITS PER CAPITA INCOME (\$430 ACCORDING TO WORLD BANK). (PER CAPITA INCOME IN REAL TERMS WAS ABOUT THE SAME IN 1976 AS IN 1976, THE 3.4 PERCENT AVERAGE GROWTH OF THE ECONOMY BEING VIRTUALLY OFFSET BY POPULATION GROWTH. ZAMBIAN DATA, AFTER ADJUSTING THE FIGURE FOR TERMS OF TRADE, SHOW A DECREASE IN REAL TERMS FROM K200 IN 1970 TO K150 IN 1976). ITS LANDLOCKED

STATUS, ALTHOUGH EXACERBATED BY CUT-OFFS OF TRANSPORT ROUTES THROUGH ANGOLA AND RHODESIA, HAS NOT QUALIFIED IT FOR SPECIAL TREATMENT. ZAMBIA HAS NOT HAD ACCESS TO THE CONCESSIONAL LOANS OF IDA NOR TO THE THIRD WINDOW AND. GIVEN THE DIFFICULT CIRCUMSTANCES IT FACES OF NEED FOR FOREIGN FINANCING, IS CONCERNED ABOUT RECENT STEPS TAKEN TO PUT THE BANK'S LENDING TERMS MORE CLOSELY IN LINE WITH COMMERCIAL SOURCES OF FUNDS. IT ALSO FEELS THAT THE BANK HAS EXERTED AN UNDUE DEGREE OF INFLUENCE ON THE BILATERAL AID PROGRAMS OF DONOR COUNTRIES. (IN A SIMILAR VEIN, ZAMBIA FEELS THAT THE IMF HAS BEEN SOMEWHAT HEAVY-HANDED IN ITS APPROACH TO ZAMBIAN ADJUSTMENTS TO FOREIGN EXCHANGE PROBLEMS.)

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6. SERVICING OF EXTERNAL DEBT: ZAMBIA, WHICH HAS TRADITIONALLY HAD A HEALTHY BALANCE OF PAYMENTS SITUATION AND A MODERATE LEVEL OF EXTERNAL DEBT, HAS SUDDENLY FOUND ITSELF IN A SITUATION OF SUBSTANTIAL AND CONTINUING CURRENT ACCOUNT DEFICIT (K393 MILLION IN 1976 FROM A SURPLUS OF K48.5 MILLION IN 1974) AND AN ABRUPT DEPENDENCE ON FOREIGN BORROWING. THE 1976 DEFICIT WAS K103 MILLION. PAYMENTS ARREARS TOTALLED SDR 189 MILLION ON 10/31/76 AND CONTINUED TO MOUNT. ON THAT DATE, GROSS OFFICIAL RESERVES STOOD AT SDR 80 MILLION, THE EQUIVALENT OF ONE MONTH'S IMPORTS. (IMPORTS WERE CUT BACK 19 PERCENT IN 1976.) OUTSTANDING DISBURSED EXTERNAL PUBLIC DEBT ROSE FROM \$680 MILLION AT THE END OF 1974 TO \$948 MILLION AT THE END OF 1975. MUCH OF THE NEEDED FUNDS HAVE NOT BEEN AVAILABLE ON LONG-TERM LOANS WITH THE RESULT THAT SUBSTANTIAL AMOUNTS HAVE BEEN BORROWED SHORT-TERM, MUCH OF WHICH IS SCHEDULED FOR REPAYMENT IN 1977 (SDR 142 MILLION) AND IN 1978 (SDR 186 MILLION). BUT WITH THE PREVAILING PRICE

OF COPPER, FOREIGN EXCHANGE FOR REPAYMENT IS NOT AVAILABLE. MOREOVER, THE REPAYMENT BURDEN HAS BEEN INCREASED BY DEVALUATION OF THE KWACHA BY 20 PERCENT IN JULY 1976. HENCE ZAMBIA HAS STRONG VIEWS ON THE HANDLING OF FOREIGN DEBT. IT REJECTS THE DIVISION OF THE PROBLEM IN THE CIEC COMMISSIONS BETWEEN ACUTE AND STRUCTURAL CASES. IT ARGUES FURTHER THAT RESCHEDULING SHOQLD NOT BE HANDLED THROUGH THE TRADITIONAL CREDITOR CLUB MECHANISM BUT THROUGH A STANDARIZED PROCEDURE AND IN A WAY WHICH DOES CONFIDENTIAL

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NOT DISRUPT A COUNTRY'S PACE OF DEVELOPMENT.

7. TRADE LIBERATION FOR DEVELOPING COUNTRY EXPORTERS: WITH A RENEWED DETERMINATION TO DIVERSIFY THE ECONOMY AWAY FROM EXCESSIVE DEPENDENCE ON COPPER, THE 1977 BUDGET OUTLINES A PROGRAM NOT ONLY FOR INCREASED AGRICULTURAL PRODUCTION BUT ALSO FOR THE PROCESSING OF LOCAL MATERIALS FOR EXPORT AS WELL AS FOR IMPORT SUBSTITUTION. THIS HAS A DIRECT BEARING ON THE GENEVA MTN DISCUSSIONS AS IT RELATES TO MARKET ACCESS FOR DEVELOPING COUNTRY INDUSTRIES.

8. ACTIVE US ASSISTANCE PROGRAMS TO ZAMBIA ARE PRESENTLY LIMITED TO A \$5.6 MILLION PL480 AGREEMENT FOR THE IMPORTATION OF WHEAT AND EDIBLE OIL AND A \$20 MILLION PROGRAM LOAN TO HELP ALLEVIATE THE CURRENT BALANCE OF PAYMENTS DIFFICULTIES IN THE COUNTRY. BOTH AGREEMENTS WERE SIGNED DECEMBER 3, 1976 AND DESPITE SOME INITIAL ADMINISTRATIVE DIFFICULTIES THEIR IMPLEMENTATION IS PROCEEDING FAIRLY SMOOTHLY AT THIS POINT.

9. A PROPOSED \$10 MILLION HOUSING GUARANTY PROGRAM HAS BEEN OFFERED TO ZAMBIA BUT IS ENCOUNTERING SOME DELAY WHILE THE GRZ REASSES ITS OVERALL HOUSING POLICY. WE DO NOT ATTRIBUTE THE DELAY TO A US/ZAMBIAN PROBLEM BUT RATHER TO AN INTERNAL POLICY RE-EVALUATION. LOW

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